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This is SAC weekly newsletter for 10 Nov 2021

Market Moves

Higher energy prices (Oct: +30.0%, Sep: +24.8%) fueled US' Oct inflation rate (+6.2% yoy; +0.9% mom) to the highest yoy gain since Nov 1990, driving the 10-year treasury yield higher by 12bp to 1.57%. Expectations of higher interest rates are tailwinds for the banks. The disparity in P/B among the three local banks has widened - DBS 1.5x, UOB 1.19x and OCBC 1.05x. OCBC has room to catch up on valuation.

Following close on the heels of Roxy-Pacific's privatisation, major shareholders of another property developer and owner, Singhaiyi launched an offer to buy up the remaining 21.6% stake for S\$106m or S\$0.117/sh. This priced Singhaiyi at 0.78x P/B, compared with 1.26x for Roxy-Pacific's offer. Separately, Nordic Group launched a GO for Starburst for S\$0.238/sh, or 1.6x P/B and 7.9x FY21E PE annualized. 70% of Starburst's shareholders have agreed to accept the offer. And Keppel raised its offer price for SPH by S\$0.20/share to S\$2.351. This is higher than the S\$2.10 all-cash offer by consortium led by Hotel Properties, Capitaland and Mapletree. The spate of M&A activities is driven not so much by low funding costs, in our view, but more by the deep value of SGX-listed stocks.

Singapore and KL will start quarantine-free air travel from end Nov, and are also mulling opening up land travel between the two countries. Bringing back traffic flow will help to ease manpower crunch for many Singapore companies. This will also lift telcos' roaming revenue. However, retail sales might be impacted with more locals travelling out during the year-end school holidays. Strong S\$ might deter Malaysian tourists, hence we are less sanguine for Genting, the retail and hospitality sectors. Hospitality REITs face

COVID mobility restrictions eased further with size of dining group raised to five. But the crux of the problem is the 30-40% cut in seating capacity due to safe distancing requirement. We think this might be permanent. Instead of taking on more space, F&B operators, especially those who are able to pivot to online delivery, would choose to let go of physical shops.

Analysts' Notes

Daiwa House Logistics Trust | DHLT lodged a preliminary prospectus to list on SGX by offering ~244m units at S\$0.80 per unit. The initial portfolio consists of 14 Japan logistics properties with a total NLA of 423,920 sq m. As at 1 Oct 21, the portfolio has 26 tenants with an occupancy rate of 96.3% and an aggregate WALE by NLA of 7.2 years. The purchase price will be 71.1 billion yen (S\$840.5 million), representing an 11.8% discount to the appraised value of around 80.6 billion yen. The projected NPI yield for 2022 is 77.9% and the annualised distribution yield in 2021 is forecast to be around 6.3% and 6.5% in 2022. The unaudited pro forma NAV is at S\$0.81 per unit, translating to a PB of 1.0x. Comparatively, the listed logistics SG REITs (EC World REIT, ARA LOGOS Logistics Trust and Mapletree Logistics Trust) are trading at an average annualised distribution yield of 6.0% and an average P/B of 1.2x. (*Lam Wang Kwan*)

Company News

Kim Heng Ltd (BBG: KHOM) signed a non-binding MOU with Hung Hua Construction to build an export cable laying barge and provide project team and expertise for cable laying opportunities in Taiwan offshore windfarm sector. The Group has previously worked with Hung Hua to install cables for Yunlin Offshore Windfarm. Separately, Kim Heng has also purchased a 300-footer barge. With more offshore windfarms and solar farms springing up in SE Asia, the Group is scaling up its own fleet of barges to meet the increased demand for cable installation works.

ISOteam Ltd (BBG: ISO) inked a MOU with Acclivis Technologies and Solutions and Nippon Paint for the development of autonomous painting drones for painting building facades. The collaboration is a welcome move especially when local built industry is still plagued with severe labor shortage. Deploying drones reduces reliance on foreign labour post-Covid. Under the

(subsidiary of Nordic Group Limited (“NGL”)) for the full acquisition of their existing shares, with the pre-condition being either the satisfaction or waiver on or before 10 Feb 2022 of all resolutions necessary to approve and undertake the offer being passed at NGL’s general meeting.

The offer price is set at S\$0.238 in cash, a premium of 5.78% above the last transacted trading price on 9 Nov of S\$0.225. The offer is also a 4.16%, 9.07%, 12.53% and 25.46% premium over VWAP for 1, 3, 6 and 12 month periods prior respectively.

NGL’s principal activities comprise integration, assembly, trading, importing and exporting of hydraulic systems and marine components. Together with its subsidiaries, it also provides automation and systems integration, maintenance, repair, precision engineering and other engineering services. NGL believes that Starburst’s business of designing, fabricating and installing shooting ranges, tactical training mock-ups and performing maintenance services will provide synergistic effects to their current operations.

As at 10 Nov, NGL has received irrevocable undertakings from Mr. Edward Lim (35.8%

service through its global network.

HGH Holdings Ltd (BBG: AAG) entered a non-binding MOU with AAEX Pte Ltd for potential collaboration in developing a blockchain platform. The Group will negotiate exclusively with AAEX for 4 months before entering into any definitive agreements. Blockchain space has been garnering interests lately as 6 other companies including Vividthree and VCPlus entered into crypto-related activities within the year. MAS is taking an open approach towards cryptocurrencies underpinned by blockchain technologies with the ambition to position Singapore as a leading player in the global crypto economy.

69.7%. *(Lim Li Jun Tracy)*

Hyphens Pharma | announced the full acquisition of Novem companies (Novem Healthcare, Novem Pharma and Novem Sciences) for S\$16.28m, made up of S\$13.84m in cash and issuance of 8.35m shares at an issue price of S\$0.2926, making up the remaining 15% of the consideration amounting to S\$2.44m. The latest book value of the Novem companies is approx. S\$4.53m (as at 30 Jun). Net profit of Hyphens Pharma in FY20 was S\$6.16m, and if Novem group of companies' net profits are added, total net profit would have been S\$8.23m. Taking into account the increase in number of shares from issuance, there would have been a 29.9% EPS accretion (from 2.05 cents to 2.67 cents).

Novem is a leading Singapore-based distributor of pharmaceutical products, nutraceutical products and medical devices, and their product portfolio consists of over 150 products of their proprietary brand of generic medications and in-house nutraceutical products. Novem's products caters for diseases including cardiology, ophthalmology and general surgery. The acquisition of Novem companies will add over 40 brand principals across Europe and Asia and

(Lim Li Jun Tracy)

Propnex Limited's | 9M21 revenue accounted for 87.9% of our previous estimates, and its 9M21 net profit surpassed our forecasts by 15.6%. Propnex's management also indicated a 75%-80% dividend payout of its FY21 profits. Propnex reported that its 9M21 revenue almost doubled, increasing from S\$358.4m in 9M20 to S\$715.5m in 9M21 mainly from higher commission income on the back of higher transactions done. Agency services accounted for S\$387.5m and project marketing S\$325.9m of revenue. Profit from continuing operations rose by 2.2x from S\$7.1m to S\$15.5m. Its net cash position grew to S\$123.7m from S\$105.8m as at 31 Dec. Previous TP: S\$2.00. New TP under review. [\(Link\)](#) *(Lim Li Jun Tracy)*

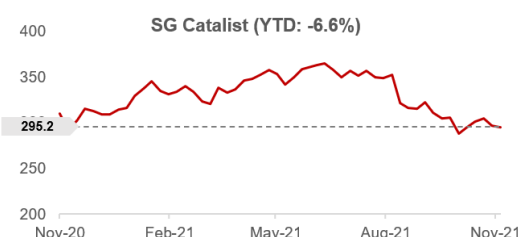
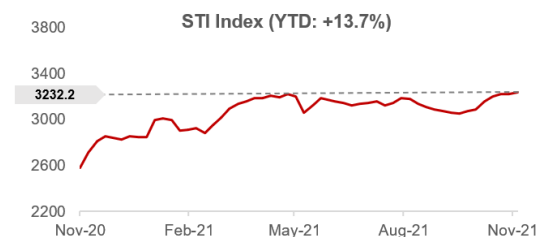
Grand Venture Technology Limited's | 9M21 revenue and profit accounted for 85.9% and 94.6% of our previous estimates. GVT reported a 95.9% increase in 9M revenue yoy, to S\$85.4m in 9M21, from S\$43.6m in 9M20, driven by an increased share from key customers. Semiconductor segment grew the most, rising 73.1% yoy to S\$62.5m. Life sciences contributed S\$13.3m and electronics, medical and others contributed S\$9.7m to revenue. Gross margin

S\$3.7m to S\$13.7m. We remain positive on the growth of GVT, but are cautious of the effects of supply chain disruption on the margins moving forward. Previous TP: S\$1.30. ([Link](#)) (*Lim Li Jun Tracy*)

China's factory gate inflation, which relates to the price point for wholesale goods, had hit a 26-year high in October with PPI rising 13.5% (Sep: 10.7%), on the back of high commodity prices and higher energy demand as more countries exit from their lockdowns. China's drive to meet environmental targets brought about supply curbs which are making things worse. CPI rose 1.5% yoy (Sep: 0.7%), which we believe will go higher as producers pass on costs to consumers. The upcoming Lunar new year might be a further driver of the CPI. With the clampdown on property and technology sectors, and the drive to hit climate goals, we are cautious of the effects on economic growth globally. With the global heightened difficulty in procurement of raw materials and labour, together with higher shipping costs, we think that companies' margins are treading on thin ice, unless they pass costs on to consumers. (*Lim Li Jun Tracy*)

Rising fuel price poses the latest worries to supply chain recovery. The surge in prices has

a strike. ~20% of trucks under the Land Transport Federation of Thailand stopped running on 1 Nov and the drivers are rallying for a second protest on 16 Nov and expecting more trucks to join in then. Thailand is an export-oriented economy with exports making up 60% of its GDP in 2019. As such, delayed trucking in Thailand could worsen the logistics flow of goods and put additional strain on global supply chain. With more countries reopening their borders, economic activities are rising in tandem which could see demand for goods to rebound quickly, adding on to the present bottlenecks that have yet to unwind. *(Lim Shu Rong)*



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